

Agenda 2010: a model for Europe?

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[In the debate](#) / 08/01/2013

'Agenda 2010' was presented by German Premier Gerard Schröder as a set of reforms that were a 'third way' between Social Democracy and neoliberalism. A decade after their introduction, Belgian philosopher Philip Van Parijs attempts to examine their legacy, and asks whether the reforms have contributed to the current Eurozone crisis.

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The Third Way: the German Version

June 8, 1990. Having recently arrived to power after roughly two decades of opposition, the heads of the UK and the Federal Republic of Germany, Tony Blair and Gerhard Schröder, publish a document together titled, "The Third Way".^[1] The piece strives to define the contours of a credible alternative to neoliberalism and social democracy, judged to be too conservative. Its aim is to enable the European left to overcome the challenge of globalisation.

More than *New Labour* policies, Schröder's second government's (2002-2005) state reforms established European social-democracy's efforts toward modernisation. The reform was officially declared during an important speech at the Bundestag on the 14th of March, 2003. Technically called Agenda 2010, this reform became better known as "[Hartz IV](#)", the name of an important package of reforms that came into effect on January 1st, 2005. *Hartz IV* was technically the last and most important of the four packages the commission concocted for Agenda 2010, under the presidency of Peter Hartz, Volkswagen's human resources director.^[2]

The least that can be said, as Gerhard Schröder recently stated himself, is that this reform is still controversial. The reform generated protests throughout Germany. Gerard Schröder's party even split up over it, when his predecessor at the head of the SPD, Oskar Lafontaine, joined the newly created party Die Linke. In fact, the reform probably contributed to Schröder's defeat against Angela Merkel in the November 2005 federal elections.

Effectively, Agenda 2010 lends itself to both bleak and rosy interpretations, each of which stakes a valid claim to at least some part of truth. Only history to come, Europe's more than Germany's itself, will tell which of the interpretations is more accurate. I would like to quickly brush over both interpretations. By courtesy to our host of honour, I shall start off with the bleaker one in order to end on the possibility of a *happy ending*.

What are Agenda 2010 and particularly *Hartz IV* all about? These reforms were comprised of a series of complex interdependent measures, including namely:

1. Decreasing the duration of unemployment benefit from 32 to 12 months
2. Decreasing barriers to implementing layoffs for certain categories of workers
3. Merging social security and unemployment welfare systems, *Sozialhilfe* and *Arbeitslosenhilfe*, into a single system corresponding to the most modest of the predecessors, enforcing beneficiary employment searches and acceptance rate more stringently than in the past
4. Allowing low income employment/jobs to be combined with total or partial welfare benefits

What impact did these measures have? Rather than inundate you with figures critics typically cite regarding, for example, the increase in precarious and impoverishing work^[3], I will refer to the OECD report on inequality published last December. According to the OECD's report, among the largest countries in the OECD, inequality has increased the most in Germany over the past decade.^[4] In particular, although income distribution in Germany was typically more egalitarian than in France, it became significantly less so starting in 2003. Primary income distribution is always more unequal in France than in Germany, but paradoxically Chirac and Sarkozy's Providence-State redistributed much more from the richest to the poorest than the German social State under Gerhard Schröder's reform.

Nevertheless, there are good reasons for congratulating Schröder, especially if the sole objective was to increase the German economy's competitiveness. Though it might displease critics, Gerhard Schröder is right to attribute Germany's relatively low rate of unemployment, comfortable situation in terms of trade balance, public finances, and debt interest rates; all of which result from a notable improvement of competitiveness in comparison to its main trading partners.^[5]

The Bleak Interpretation: a Vicious Spiral

Yet, this does not suffice to transform a bleak outlook into a brighter picture, given the inevitable impact of Germany's improvement on its trading partner, in particular, those within the Eurozone. All other things being equal, Germany's improved competitiveness means its trading partners encounter greater difficulty selling their products in Germany, in foreign markets, and even within their own territories. The common market, however, prevents European partners from engaging in protectionist practices – and there are sufficient economic reasons to explain why this is a good

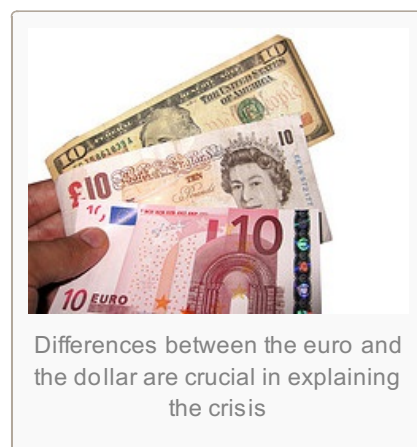
thing. Above all, the adoption of a common currency prevents Member States from devaluing their currencies to compensate for decreases in relative competitiveness – contrary to the UK that has been able to adjust by letting sterling devalue by 20% since the Euro's inception. There was no shortage of economists – from Milton Friedman to Paul Krugman – to explain that this is not a good thing; this is precisely why the creation of the euro was a foolish mistake.[6]

It is essential to grasp their argument in order to understand the nature of the Eurozone's current structural crisis and to devise a solution that will turn a bleak outlook into a positive one. The argument is simple, at least if one starts with following question: How did the United States accommodate economic disparities among its states over the past two centuries of common currency? Essentially, the United States had recourse to two powerful mechanisms, which automatically attenuated an important part of their divergences. The first mechanism was migration of people from less prosperous states to more prosperous ones. The second was financial transfers across state borders, related primarily to fiscal and social security policy, both of which are organised and financed for the most part at the federal level in the United States.

Economists predicting the demise of the euro are quick to point out that Europe is far from having analogous mechanisms. Firstly, the rate of migration among Member States in the European Union is much lower – today approximately seven times lower – than the migration among states in the United States. Furthermore, Europe's linguistic diversity makes a significant increase in the rate of migration highly improbable.

Secondly, according to US estimates, 40% of a state's decline in GDP can be compensated via an automatic adjustment of net transfers towards that state from the Federal government. In contrast, a decrease in Member State GDP in the European Union is only compensated for by less than a 1% automatic adjustment of net transfers within the European Union.[7]

According to Euro critics, both of these large differences will prove fatal. If an important part of the Eurozone, say Germany, considerably increases its competitiveness compared to others, the other countries will quickly find themselves confronted with a trade deficit and the threat of unemployment, just like individual states in the US, and against which they are not able to devalue their currency. Contrary to the states of the United States, European Union Member States will not be able to count on the exodus of the unemployed toward more prosperous states, nor on substantial financial compensation from more competitive states acting as a form of supra-national social security, to attenuate shocks. Far from reducing the economic crisis afflicting a Member State, social security in Europe worsens the crisis because, on the one hand, the fall in fiscal revenues and the increase in social expenditures for which the state is entirely responsible saps the national public budget. On the other, the risk of public debt exploding increases – as my rating agencies are closely watching out for – which then



increases the interest rates on debt, making the situation in the country even more untenable.

What can countries facing a productivity deficit in comparison to Germany do? They don't have much of a choice. They have to recreate themselves more abruptly and more aggressively than what Agenda 2010 was able to achieve in Germany. In other words, social security, no matter how scant it might currently be, has to be cut and labor markets have to be made more flexible. As a result, more workers will end up with precarious job contracts and the degree of inequality among households will increase significantly. Once trade balances are corrected, after going through the gruelling process of layoffs, break-ups, damaging reforms, popular protests, and political crises, then Germany, fearing for its economic standing in the Eurozone, will have no other choice but to take measures to further revive its competitiveness.[\[8\]](#)

The Rosy Interpretation: Daring to Exit the Crisis From Above

Admittedly, this analysis is simplistic. It relies on hypotheses that typically require nuancing. Overall, however, the analysis is robust enough to justify a bleak, rather than rosy, portrayal of Agenda 2010's impact on the Eurozone. In fact the analysis is robust enough to render alarmist cries, stating that we have now committed ourselves to the vicious spiral, all the more plausible. Nuances are nevertheless possible. Transforming the bleak scenario into a rosy one remains possible and Gerhard Schröder has himself suggested new directions that could be taken.

This reorientation has two important characteristics, which I would like to briefly discuss as I do not have the time to get into the details. They are the most radical and important characteristics and will be covered in a dogmatic, almost enigmatic, fashion. Firstly, we must recognise that a sustainable Eurozone will be impossible without a portion of social security being managed at the level of the European Union or at the very least that of the Eurozone. Gerhard Schröder suggests considering this direction when he bluntly stated in a recent interview that the European Union is a *Transferunion*[\[9\]](#) or when he said earlier that we cannot have a common currency without common economic and social policies.[\[10\]](#)

In the meantime, it is clear that the viability of the monetary union will only be ensured once transfers are not limited to national debt guaranties, emergency aid, and investment subsidies, or to a financial balancing out among national budgets replicating the *Finanzausgleich* among German *Länder*. The monetary union can only be maintained if transfers ambitiously become interpersonal transfers across Member State borders, just like in the United States or within federal Germany. That's it for the first characteristic suggested.

What kind of transfers could take place? Transfers in the form of taxation on physical persons, pension systems, unemployment benefits, employment subsidies, etc., as found in the United States or in Germany, but organised and financed at the level of the European Union or the Eurozone often seem inconceivable, when, in fact, they are not. The system of interpersonal transfers which could ensure the viability of the

Eurozone will have to take on a much simpler, more frustrating, form. In addition, it will have to take on a form that will not focus exclusively on the unemployed, so that they are not kept imprisoned in a situation of dependence. Similarly to *Hartz IV*, the system will have to offer support to low income working households, while avoiding the negative side effects Gerhard Schröder brought up earlier. In other words, employers cannot be allowed to take advantage of the system by obtaining subsidised workers, at low costs, who find themselves obliged to accept precarious jobs, bereft of training opportunities and the perspective of achieving wage and benefit improvements.

Following these powerful considerations would likely lead us to – a foundation rather than a substitute to national social security systems – something that strongly resembles a proposition in reaction to *Hartz IV* in Germany that has encountered unprecedented popularity: that of a *bedingungsloses Grundeinkommen*, a basic income, which individuals receive when unemployed and retain once gainful employment is secured.^[11] A similar type of measure is a work subsidy, but the major difference is that the basic income would be unconditionally accorded to workers or potential workers. As such, workers would be left in a position to accept or refuse a low income job, depending on whether the position offered training and learning opportunities or, on the contrary, represented a disguised form of slavery, in which employers completely exploited the vulnerability of workers.

Don't basic income for European citizens and more generally a system of interpersonal transnational transfers represent utopian ideals and institutions that have never existed anywhere before? Of course, but it was not long ago that the very idea of a European Union and a common European currency were also considered pure utopianism. Important historical figures, however, dared to believe in them and do what was needed to make them a reality. Among them are several of Gerhard Schröder's predecessors, from Konrad Adenauer to Helmut Kohl. Having made these utopian ideals become reality now forces us to imagine ways of bringing others into existence. Disbelieving and giving up is resigning oneself to the daunting scenario that is befalling us.

Yes, Mr. Schröder, I believe as you do that it is possible to offer our children and our grandchildren a better future, one that surpasses our present. Yes, I believe as you do that it is possible to reconcile economic prosperity and social justice better than what we have done so far. But to do this, we have to see reality for what it really is. We have to be vigilant about bringing to light the causes of the Eurozone crisis, boldly imagine radical and effective solutions, and especially have the courage to brave selfish populism and myopic public opinion – as you have done with your own reforms – to make politically feasible the morally indispensable.

Herzlichen Dank, Herr Kanzler, Mr. President, Mr. Vice-Prime Minister, Mevrouw de Minister, meine Damen und Herren, für Ihre Aufmerksamkeit.

^[1] The document's German title is *Der Weg nach vorne für Europas Sozialdemokraten*. Authorship is generally attributed to Peter Mandelson (future European commissary)

and Bodo Hombach (minister within Schröder's first government).

<http://web.archive.org/web/19990819090124/http://www.labour.org.uk/views/items/000000>

[2] Announced during the crisis in Iraq, the governmental declaration in March 2003 was titled "*Mut zum Frieden, Mut zur Veränderung*". The complete text can be accessed at <http://www.rhetorik.ch/Aktuell/reformrede/rede.html> and a film extract can be

[3] See, for instance, Karl Brenke, "Five years after the reform of the social and unemployment benefits in Germany", *DIW Berlin Weekly Report* 6(12), April 28, 2010; Lena Koller & Helmut Rudolph, "Viele Jobs von kurzer Dauer", *IAB-Kurzbericht* 14, 2011; Christian Brütt, *Workfare als Mindestsicherung. Von der Sozialhilfe zu Hartz IV*, Bielefeld, transcript-Verlag, 2011. See also, Claus Offe's prescient article "Politik mit der Agenda 2010: Panikreaktion, Machtkalkül oder Reform?", *Blätter für deutsche und internationale Politik* July 7, 2003, pp.807-817.

[4] *Divided We Stand. Why Inequalities Keep Rising*, Paris, OECD, December 2011. The Gini coefficient for inequality increased more in Sweden and Finland, but initial levels of inequalities were considerably smaller.

[5] As noted in *The Economist* this week, "Thanks mainly to the Agenda 2010 reforms begun by the social-democrat-led government of Gerhard Schroeder in 2003, Germany has liberalised many of its labour-market rules, one reason for today's enviably low unemployment." (Modell Deutschland über alles", *The Economist*, April 14, 2012).

[6] See in particular Martin Feldstein (The Harvard Professor whom was second in line to Alan Greenspan to head the Central Bank), from "The case against the Euro" *Economist* June 13 1992, to "The Failure of the Euro. The Little Currency That Couldn't" *Foreign Affairs*, January-February 2012. These analyses are based on the riche 'optimal monetary zones' literature, which started because of the Euro perspective; see James Mead "The Balance of Payments Problem of a Free Trade Area", *Economic Journal*, 67,1957, p.379-96 ;Robert Mundell, "A Theory of Optimal Currency Areas", *American Economic Review* 1961, p. 657-665.

[7] See Xavier Sala-i-Martin and Jeffrey Sachs, "Fiscal Federalism and Optimal Currency Areas: Evidence for Europe from the United States", NBER Working Paper 3855, October 1991; and Martin Feldstein, "The Political Economy of the European Monetary Union" Political Sources of an Economic Liability", *Journal of Economic Perspectives* 11(4), 1997, 23-42. Other estimates, using other methods, have been conducted since for the United States (see, for instance, Asdrubali, Pierfederico, Bent Sorensen & Oved Yosha, "Channels of Interstate Risk-Sharing: United States 1963-1990", *The Quarterly Journal of Economics* 111(4), 1996, pp.1081-1110). However, the differences in terms of magnitude remain uncontested.

[8] In an illuminating analysis of the Eurozone crises and its impact on the democratic legitimacy of European government, Fritz Scharf (*Monetary Union, Fiscal Crisis and the Pre-emption of Democracy*, Max Planck Institut für Gesellschaftsforschung, Discussion Paper 11/11, July 2011, p.35) cites a former chef economist from the European Central Bank to suggest those who promoted the Euro anticipated and expected a forced

increase in labour market flexibility throughout the European Union.

[9] “Gerhard Schröder verordnet Deutschland Agenda 2030”, *Handelsblatt*, April 7, 2012.

[10] “Die gegenwärtige Krise macht jedoch klar, dass man nicht einen gemeinsamen Währungsraum haben kann ohne eine gemeinsame Finanz- Wirtschafts – und Sozialpolitik.” (Gerhard Schröder, Agenda 2010: Schlüssel zu Deutschlands wirtschaftlicher Erfolgsgeschichte”, Brussels, April 17, 2012).

[11] Agenda 2010 triggered a veritable outpouring of advocacy in favour of a “basic unconditional income” (or “universal allowance” or “citizen income”). Dozens of books have been published on the subject from various types of authors, ranging from a CEO (Götz Werner, *Einkommen für alle*, Köln, 2007; Götz Werner & Adrienne Goehler, *1000 Euro für jeden: Freiheit, Gleichheit. Grundeinkommen*, Berlin, 2010) and a minister-president (Dieter Althaus & al., *Solidarisches Bürgergeld: Freiheit nachhaltig und ganzheitlich sichern*, Norderstedt, 2010) to the jobless movement (Bundesarbeitsgemeinschaft der Erwerbslosen – und Sozialhilfe-Initiativen, *Existenzgeld reloaded*, Neu-Ulm, 2008) to *Die Linke*’s close political ties (Ronald Blaschke & al., *Grundeinkommen: Geschichte –Modelle Debatten*, Berlin, 2010), the Grünen (Petra Kelly & al., *Klimawandel und Grundeinkommen: Die nicht zufällige Gleichzeitigkeit beider Themen und ein sozialökologisches Experiment*. München, 2008) or still from the Social Christianity movement (Dorothee Schulte-Basta, *Ökonomische Nützlichkeit oder leistungsloser Selbstwert? Zur Kompatibilität von bedingungslosem Grundeinkommen und katholischer Soziallehre*, Freiberg, 2010). For additional references, see <http://www.grundeinkommen.de/die-idee/literatur>.

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